PUBLIC PROCUREMENT REFORM AS A DRIVER OF FINANCIAL SUSTAINABILITY AND INCLUSIVE ECONOMIC DEVELOPMENT

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Abstract:

This study addresses the impact of public procurement reform on the economy and financial sustainability, focusing on the integration of inclusive development principles. The main objective of the research is to analyze how new regulations can support the efficient allocation of public resources, while promoting social inclusion and equitable development.
The specific objectives include: identifying current procurement practices that limit the potential for sustainability and inclusion; proposing a reform framework based on sustainable criteria, such as social and environmental impact; assessing the potential impact of these reforms on economic growth and social justice.
The methodology used combines a detailed bibliographic analysis of national and international regulations, together with relevant case studies in the field of public procurement. Secondary data and qualitative analyses are also used to assess the impact and efficiency of various reform models implemented in this sector.
The anticipated results indicate that a well-structured public procurement reform can generate multidimensional benefits. These reforms are expected to lead to a more efficient allocation of public funds, stimulate innovation in the public sector, and thus contribute to more inclusive and sustainable economic development.

Keywords: *financial sustainability, sustainable public procurement, circular economy.*

JEL classification: *D 73, H 57, O 23.*

Introduction

In recent decades, the field of public procurement has gained strategic importance within public administration, constituting an essential factor in increasing the efficiency of government spending, in strengthening administrative transparency and in supporting economic development. Reforming the public procurement system represents a fundamental instrument for achieving the objectives related to budgetary sustainability and promoting inclusive economic development, all the more relevant in the current context, marked by

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multiple economic and social challenges. The management of a significant proportion of public financial resources through this mechanism gives the procurement process a direct impact on the quality of public services and on the level of economic development, both at local and regional scales, and at national level.

In this context, the main objective of public procurement reform is to maximize the use of financial resources, while ensuring that they are directed towards sectors and projects that contribute to sustainable and equitable economic development. Public procurement reform involves not only updating the legislative and institutional framework, but also a paradigm shift, which aims to integrate social, environmental and economic objectives throughout the procurement cycle – from planning and assessment, to implementation and monitoring. Thus, public procurement becomes a lever through which states can stimulate innovation, support small and medium-sized enterprises, promote social inclusion and contribute to the transition to a green and resilient economy.

Literature Review

Public procurement has experienced continuous development throughout history. From its origins to the present day, public procurement has taken various forms, but the purpose and importance have remained the same – to capitalize on the public interest for the proper functioning of public services. [1]

The specialized literature dedicated to public procurement has developed significantly in recent decades, as the role of this field has gone beyond the strictly administrative sphere and has been increasingly approached from the perspective of public policies, governance and sustainable development. The expenditures made by the public sector through procurement represent a significant share of the gross domestic product of states, which gives these processes a special strategic potential in shaping economic and social development.

Initially, research in the field focused mainly on legal compliance, procedural efficiency and corruption prevention. Authors such as Arrowsmith (2010), Thai (2001) or McCrudden (2004) have substantiated the classical dimensions of public procurement, emphasizing the need for a clear regulatory framework, transparency and fair competition. [2]

Subsequently, the specialized literature began to give increasing importance to strategic public procurement, understood as those purchases that do not only aim to obtain the lowest price, but also to generate social, economic and environmental benefits. The concept of sustainable public procurement was first promoted in the Brundtland Report of 1987, by highlighting the three fundamental dimensions of sustainable development – environment, economy and society – which are, moreover, the basis of the 2030 Agenda and the 17 Sustainable Development Goals. [3]

The European Commission has defined the role of sustainable public procurement as one of the market-based instruments for achieving smart, sustainable and inclusive growth, while ensuring the most efficient use of public funds. [4]

The concept of sustainable public procurement has experienced significant development with the United Nations Conference on Environment and Development (UNCED), held in Rio de Janeiro from 3 to 14 June 1992. This conference, recognized as one of the most important high-level international events of the 20th century, had as its main objective the identification of alternative solutions for directing global development in the 21st century, in the context of

worsening ecological crises, climate change and increasing socio-economic tensions worldwide.

Studies by OECD (2020), UNDP (2019) and World Bank (2022) highlight the positive impact of sustainable procurement on reducing inequalities, stimulating SMEs, promoting innovation and reducing the ecological footprint. However, the literature also highlights the difficulties related to implementation: lack of institutional capacity, absence of clear sustainability assessment criteria and resistance to change of the actors involved. [5]

Another relatively recent direction in research is the correlation between public procurement and financial sustainability. The author Bovis C. in his paper “The challenges of public procurement reform in the single market of the European Union”, argues that efficient public procurement contributes to long-term budgetary stability by preventing waste, increasing contractual performance and reducing transaction costs. In this sense, public procurement reform is seen not only as an administrative measure, but as a component of sound fiscal governance. [6]

Although the literature in the field is vast, certain gaps persist that justify deepening the topic of this research. Few works deal in an integrated way with the link between public procurement reform, financial sustainability and inclusive economic development. Many of the existing studies focus on the legal or technical analysis of procurement, without integrating economic and social perspectives into a coherent analytical framework.

The European Union's regulatory framework in the field of public procurement is regulated by „Directive 2014/24/EU” [7], which establishes general rules applicable to public procurement, and ”Directive 2014/25/EU” [8], which covers specific procedures for entities operating in sectors of strategic interest, such as water, energy, transport and postal services. The European directives aim to ensure the uniform application of a common regulatory framework for the award of public procurement contracts. By implementing these regulations, the functioning of the internal market is strengthened and competition in public procurement is stimulated at the European Union level.

Therefore, this research aims to contribute to the specialized literature through a systemic approach, focused on the transformative potential of public procurement reform in the context of the new demands of sustainability and economic inclusion.

Methodology and Data

The results presented in this article were obtained by applying a mixed methodology. The research was based on research methods such as comparative analysis, study and evaluation of phenomena, approached from the perspective of the application of national and international legislation

The research analyzed relevant practices at international and national levels regarding the public procurement system, by studying legislation, international standards, as well as regulations, guides and manuals developed in accordance with them.

The study was based on the use of the dialectical method of knowledge, complemented by classical methods such as observation, analysis, synthesis, comparison, induction and deduction.

These methodological tools allowed for an in-depth investigation of the reform of the sustainable public procurement system, seen as an essential factor in promoting financial sustainability and equitable and inclusive economic development.

Results

Sustainable public procurement is a mechanism through which contracting authorities can actively contribute to facilitating the transition to a circular economic model. It plays a key role in stimulating demand and creating market opportunities for economic operators involved in the circular economy.

Sustainable public procurement has evolved significantly in recent decades and has become an essential component of national and international strategies for sustainable development, facilitating the overall achievement of the set of Sustainable Development Goals (SDGs) of the UN 2030 Agenda for Sustainable Development and primarily for achieving SDG 12 - Ensuring sustainable production and consumption patterns, and the sustainable public procurement target 12.7 "Promoting sustainable public procurement practices, in accordance with national policies and priorities". [9]

Public procurement is a strategic tool that can stimulate demand for sustainable products, services and works, thus contributing to the development of green markets. Through this mechanism, the public sector has the ability to positively influence the behavior of private actors, directing them towards environmentally friendly solutions. The main purpose of sustainable public procurement is to reduce the negative environmental impact of goods, services and works purchased by public authorities.

According to the Organization for Economic Cooperation and Development (OECD), sustainable procurement has the potential to stimulate innovation, providing industry with significant impetus for the development of green solutions [10]. The implementation of these practices can also lead to financial savings for the public sector, especially if the cost assessment is carried out over the entire life cycle of products, and not exclusively based on the initial purchase price.

The OECD also highlights that authorities that adopt sustainable procurement policies are better equipped to respond to emerging environmental challenges, such as reducing greenhouse gas emissions or the transition to a circular economy. From an environmental perspective, these procurements aim to optimize the consumption of resources, such as energy and water, reduce the volume of waste generated, as well as adapt to the effects of climate change.

In this context, the traditional paradigm focused exclusively on the lowest price criterion is being overcome in favor of an integrated approach that aims to maximize long-term value and generate a positive impact on society.
Following the analysis of international practice, a significant increase in interest in the use of performance indicators (KPIs) is noted, which allow the evaluation of the efficiency of procurement processes and their contribution to achieving the objectives of social inclusion, environmental protection and economic stimulation.
This paradigm shift reflects an increasingly profound understanding of the fact that public procurement can represent a strategic governance instrument, capable of directly contributing to the establishment of a circular and sustainable economy.
The analysis of the specialized literature allowed the formulation of a tripartite model of public procurement reform, structured around three fundamental, complementary and interdependent dimensions:

- Financial sustainability;
- Economic performance;
- Social impact.

These dimensions reflect the main directions of action identified in the development of a sustainable public procurement system, both at national and international level.

Financial sustainability highlights the need for prudent and efficient management of public financial resources, in order to maintain budgetary balance and prevent waste. Reform in this direction aims to strengthen financial discipline, optimize spending, increase transparency and ensures the long-term viability of the procurement system.

Economic performance aims at the operational efficiency of procurement processes and their capacity to generate added economic value. This dimension involves increasing innovation, digitizing procedures, reducing bureaucracy and stimulating competition. Economic performance reflects the strategic role of public procurement in economic growth and market development.

Social impact represents the integration of social objectives into public procurement strategies and policies. This includes promoting social equity, ensuring ergonomic working conditions and encouraging the inclusion of vulnerable groups. Reforms oriented towards social impact contribute to strengthening social cohesion and sustainable development.

Public procurement accounts for between 15% and 20% of global gross domestic product, and the total value of related contracts amounts to approximately 1.3 trillion euros.

This significant economic force can play an essential role in stimulating investment and technological progress oriented towards sustainable production and consumption practices.

Thus, based on the research carried out, an integrated model of reform of the public procurement system is proposed, designed to ensure an optimal balance between the above-mentioned dimensions.

The proposed model includes the following strategic pillars:

Strengthening the legal and institutional framework for sustainable procurement requires the development of clear and binding regulations that integrate economic, social and environmental sustainability criteria at all stages of the public procurement process. It is also essential to strengthen the capacity of institutions responsible for monitoring and evaluating the implementation of these reforms in order to ensure effective implementation. At the same time, simplifying and standardizing procedures can contribute to increasing transparency and significantly reducing the risks associated with corruption.

Digitalization and increasing transparency in the public procurement process are essential factors for increasing efficiency and accountability. In this regard, the development of modern electronic platforms can facilitate fair and open access to relevant information for all stakeholders. At the same time, the integration of advanced digital solutions allows for real-time monitoring of the development of contracts and their impact on public budget spending.

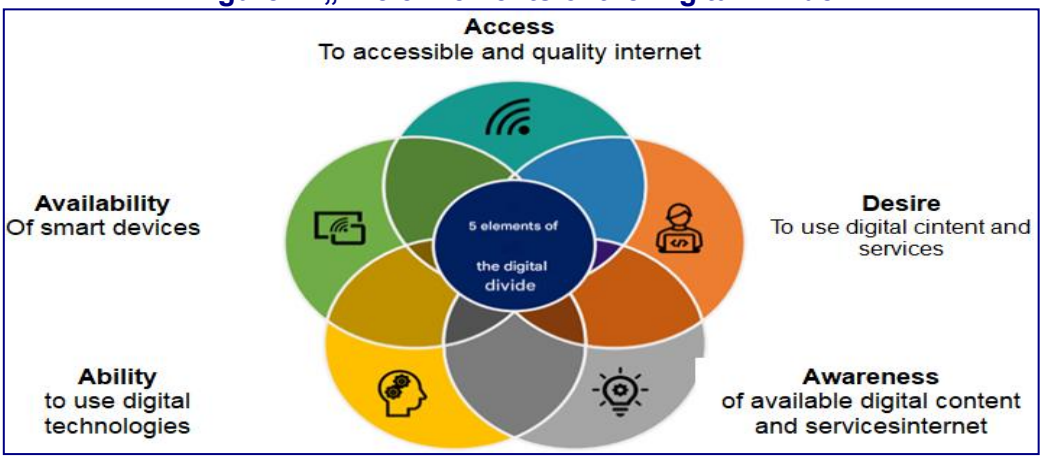
Another important step is the periodic publication of activity reports, which should also include performance indicators related to sustainability objectives, thus contributing to better institutional accountability.

Digital transformation is not primarily about introducing new technologies, but rather about redefining the way public institutions operate. The goal is to use technological solutions as tools to optimize processes, increase operational efficiency, improve interaction with beneficiaries, and promote a sustainable operating model.

Another important pillar of the public procurement reform is the ***stimulation of economic inclusion***. This can be achieved by introducing selection criteria that encourage the participation of small and medium-sized enterprises, social enterprises, as well as vulnerable

groups. Also, allocating percentages or prioritizing contracts with significant social impact, such as those that generate jobs for disadvantaged people, contributes to a fairer economy. Initiating tailored training and support programs for economic operators could facilitate access to public procurement procedures and increase the degree of competitiveness.

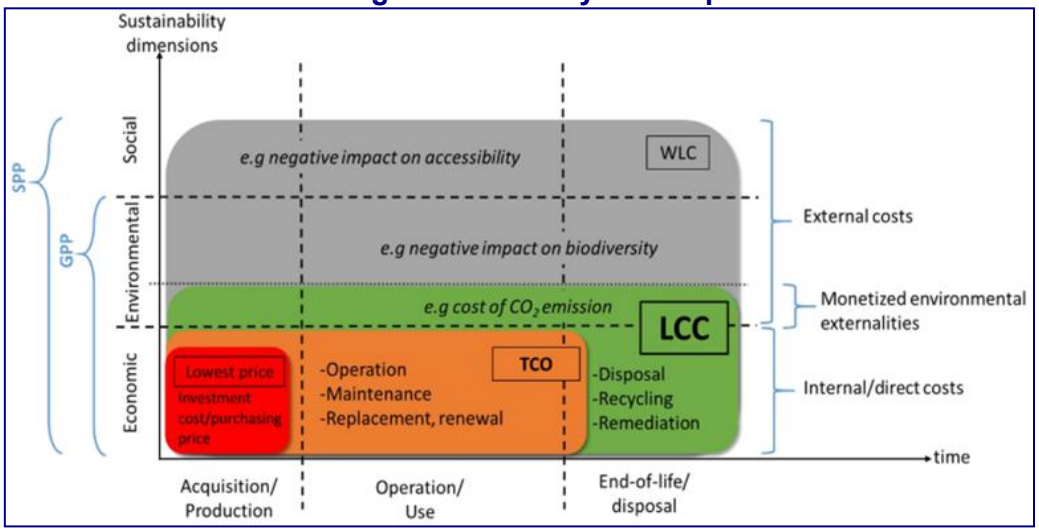
Figure 1: „The 5 Elements of the Digital Divide"



Source: Prepared by the authors based on the European Union Digital Compass [11]

Efficient and sustainable management of financial resources, in order to ensure responsible management of public funds, it is essential to adopt solid mechanisms for monitoring and controlling expenditure, so that the use of financial resources is as efficient as possible and aligned with the principles of sustainability. In this context, the budget planning process must be directly correlated with long-term strategic objectives, aiming not only at financial balance, but also at generating a positive social and environmental impact. At the same time, the implementation of relevant performance indicators will allow for a rigorous assessment of how the reforms contribute to economic stability and good governance of the procurement system.

Figure 2: „Conceptual model of assessing economic, social and environmental costs throughout the life cycle of a product"



Source: OECD (2020) [12]

The analyzed figure highlights the need for a conceptual and methodological transition in the field of public procurement, from an approach focused exclusively on the initial cost of the acquisition (lowest price) to one based on the total costs over the life cycle (Life Cycle Costing – LCC) and even on the total costs over the extended life cycle (Whole Life Costing – WLC). This holistic approach allows the integration of economic, social and environmental dimensions in the decision-making process, providing a complex perspective on the impact of procurement on sustainable development.

By assessing direct costs (acquisition, operation, maintenance) together with indirect or externalized costs (such as CO_2 emissions, biodiversity loss or the impact on social accessibility), life cycle analysis becomes an essential tool for promoting long-term efficiency and reducing negative externalities. In this context, sustainable public procurement is no longer just a procurement mechanism, but a strategic tool for achieving sustainability and good governance objectives.

Developing evaluation mechanisms, thus organizing rigorous monitoring and reporting processes of progress, in collaboration with civil society and relevant actors, contributes to transparency and accountability. At the same time, it is essential to develop an institutional learning framework, which allows for the continuous adjustment of policies and procedures and to maintain a constant dialogue between the public sector, the business environment and other stakeholders, to identify challenges and formulate sustainable solutions.

In recent years, both Romania and the Republic of Moldova have begun to recognize the importance of integrating sustainability principles into public procurement, as part of their commitments towards the circular economy and sustainable development. However, the level of development, implementation and institutionalization of sustainable public procurement differs significantly between the two countries.

As a member state of the European Union, Romania implemented in 2016 the new European directives in the field of public procurement by adopting a set of specific normative acts: „Law no. 98/2016 on public procurement", „Law no. 99/2016 on sectoral procurement", „Law no. 100/2016 on works and service concessions", as well as „Law no. 101/2016, which regulates the remedies in the procedures for the award of public procurement contracts, sectoral contracts and concessions, while also establishing the operating framework of the National Council for the Resolution of Complaints". At the same time, public institutions involved in the procurement process benefit from the support of the National Agency for Public Procurement, as well as other specialized bodies, in order to integrate sustainability criteria into the documentation related to the award procedures.

However, the provisions of the legislation have been amended several times since then, and legal instability is one of the weaknesses of the public procurement system.

On the other hand, in the Republic of Moldova, the concept of sustainable public procurement is relatively recently introduced into the public and administrative discourse. Although there are political commitments and reform initiatives, concrete implementation is still at an early stage. The lack of clear regulations, insufficient institutional capacities and the deficit of professional training among contracting authorities are factors that hinder progress in this area. However, the Republic of Moldova has initiated collaborations with international organizations and launched pilot projects aimed at promoting sustainable procurement.

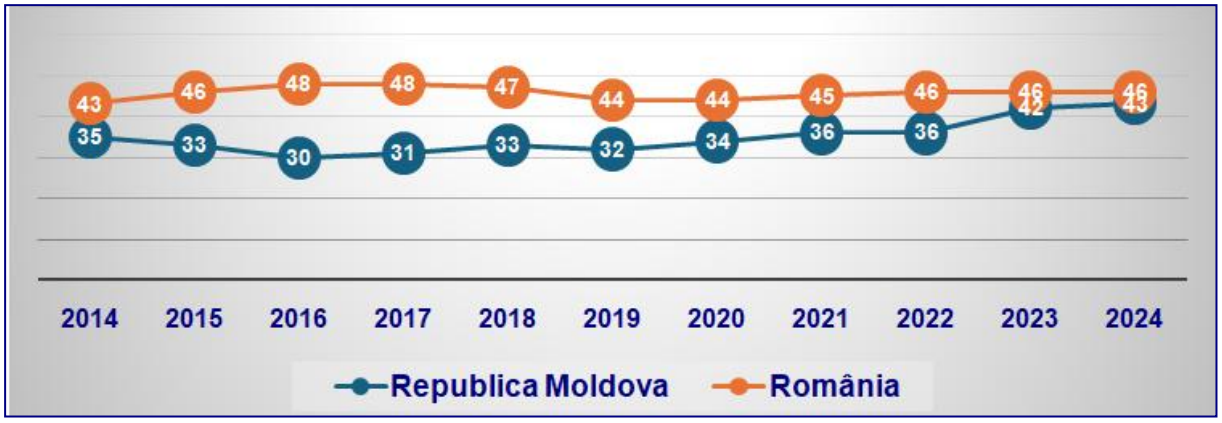
The legal framework governing public procurement in the Republic of Moldova is established by „Law No. 131 of 3 July 2015". Although this normative act regulates the essential aspects of procurement procedures, it does not explicitly provide for the integration of environmental criteria in the selection, award, technical specifications or contract performance clauses. Since 2014, the Republic of Moldova has launched a series of initiatives within the EaP GREEN regional programme, with the objective of promoting and adopting the principles of sustainable public procurement. Subsequently, since 2019, these efforts have been deepened by participating in the EU4Environment project, which included specific activities on sustainable procurement and the promotion of eco-labelling.

Significant progress was recorded in 2023, when the Government of the Republic of Moldova approved a Government Decision on the "Program for the Development of the Public Procurement System for 2023-2026". This decision aims to encourage contracting authorities to integrate sustainability criteria into procurement procedures. At the same time, the regulatory act establishes priority sectors and defines the institutional attributions of public procurement authorities in terms of monitoring and applying the criteria related to sustainable procurement at the national level.

The share of public procurement in the Gross Domestic Product in the Republic of Moldova is approximately 5%, while in Romania their share is about 11% of the Gross Domestic Product. The percentage difference highlights the different administrative and economic capacity of the two countries, as well as the level of integration of procurement policies into national development strategies. However, for both states, public procurement represents a major component of government spending, managing considerable funds from the public budget. Thus, the efficiency and sustainability of these processes have a direct effect on the balance of public finances, on the quality of services provided, but also on stimulating innovation and competitiveness.

However, the public procurement system in the Republic of Moldova and Romania is perceived as vulnerable.

Figure 3: „Corruption Perception Index (CPI) Republic of Moldova – Romania"



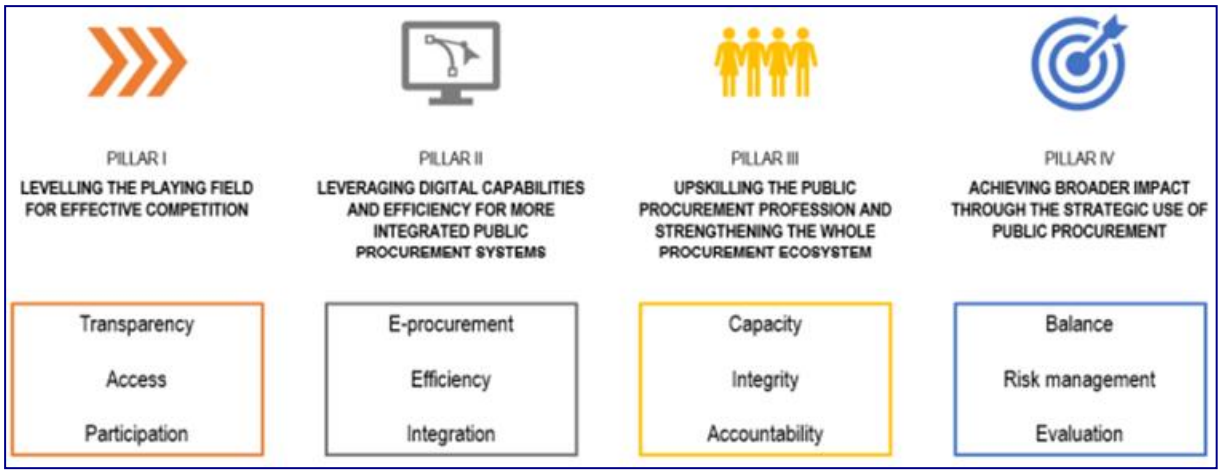
Source: Prepared by the authors based on the Transparency International

According to data provided by Transparency International, Romania obtained a score of 46 out of 100 in the Corruption Perceptions Index (CPI), while the Republic of Moldova recorded a score of 39 out of 100 [13]. These results highlight the fact that, although anti-corruption strategies have been adopted and progress is being made in certain areas, institutional

efforts must be intensified to strengthen the integrity system and reduce the perception of corruption.

Therefore, in order to increase the integration of sustainable public procurement in the Republic of Moldova and Romania and to achieve the necessary reforms mentioned in the research, the following recommendations are proposed:

Figure 4: „Recommendations on public procurement reform"



Source: Prepared by the authors based on the OECD report, 2024 [14]

Conclusions

In conclusion, this research has highlighted the strategic importance of public procurement reform as a fundamental tool for strengthening financial sustainability and stimulating inclusive economic development. The success of public procurement reform depends on rigorous implementation based on digitalization, constant professionalization of staff and a stable regulatory framework. By adopting a strategic vision, public procurement can no longer be treated as administrative tools, but must be approached as strategic levers, oriented towards transparency, efficiency and equity.

The comparative analysis between the Republic of Moldova and Romania highlighted significant differences in terms of the regulatory framework, the share of public procurement in GDP and the perceived level of corruption, thus highlighting the need for structural reforms adapted to the specific institutional and economic context of each country.

Romania, benefiting from the European regulatory framework and more consolidated implementation mechanisms, is aligning itself with the European dynamics of strengthening the role of public procurement in protecting and improving the quality of the environment, by using the principles of sustainable development in public procurement. In contrast, the Republic of Moldova, still in a reform process, faces challenges in terms of applying sustainability criteria, in particular due to institutional limitations and administrative capacity. However, the efforts and commitments undertaken at the strategic level allow the development of the sustainable public procurement process.

Thus, regardless of the level of administrative development, public procurement reform remains an essential condition for the efficient use of budgetary sources and for the

consolidation of a sustainable and inclusive economic growth model. Both Romania and the Republic of Moldova can substantially benefit from the modernization of this sector, provided that there is a coherent vision and a sustained political commitment.

Text notes

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